

Date: February 15, 2013

To: Thomas J. Bonfield, City Manager
Through: Wanda Page, Deputy City Manager
From: David Boyd, Finance Director
Ann-Marie Sharpe, Risk Manager
Subject: Annual Insurance Plan 2013-2014

Executive Summary

Each year the Finance Department prepares an annual insurance plan for adoption by the City Council. The plan applies only to property & casualty insurance and is the basis for authorization of insurance purchases throughout the year. Most of the City's insurance renewals are due April 1st. The City's annual property & casualty insurance plan has been prepared jointly by the Finance Department and Arthur J. Gallagher, the City's property casualty and risk management broker/consultant.

The proposed 2013-2014 plan continues the existing insurance coverage. In addition to the specific coverages listed in the attachment, the City Manager may need to purchase other insurance and/or modify insurance coverage during the year as needed to protect the City's interest.

Recommendation

The Finance Department recommends that the City Council authorize the City Manager to:

1. maintain the general insurance plan as attached and modify it as needed, provided the modifications are consistent with the City's overall risk management and financial objectives,
2. purchase additional insurance throughout the year, as needed for special events, lease and contract requirements, new programs, and builders risk insurance; and
3. expend an amount for all insurance premiums not to exceed \$789,012.00 to maintain the annual insurance plan and make additional insurance purchases as needed beginning April 1, 2013.

Background

Arthur J. Gallagher is the City's current broker of record and risk management consultant who handles the marketing of the City's insurance renewals. The cost of retaining AJG's services for the current fiscal year is \$42,000.00. The cost of retaining a broker on contract is considerably less than that of independent agent commissions that would otherwise be built into the premiums.

The overall proposed property/casualty insurance premium for policy year 2013 – 2014 is roughly a 14% increase (\$99,000.00) over the expiring premium. These increases are a direct reflection of the overall commercial insurance market. According to the brokers at Arthur J. Gallagher, after more than seven years of decreased insurance rates, they have

been experiencing consistent pricing increases across all lines of coverage. Much of this, they state, is attributable to catastrophic events over the last year, most noteworthy is Superstorm Sandy, as well as the massive flooding in the Northeast in years prior. Our excess liability quote is affected by the large claim settlements we have had in the last year. In addition, the recent total loss of a sanitation truck adversely impacted the renewal quote.

Financial Impact

The cost of insurance premiums for general citywide policies are budgeted and paid from the City's Risk Fund. This fund is comprised of funding from the City's General Fund, Water and Sewer Fund and other enterprise funds that may contribute to the City's exposure.

Issues and Analysis

The City purchases insurance only when the terms and pricing of insurance are the most favorable risk-financing option, or when the loss potential is beyond the City's ability to retain the risk. The City retains all risk that is not transferred either by the purchase of insurance or by contract. Through its risk management practices, the City strives to identify risk and to make prudent choices concerning risk financing. Insurance policies are maintained for a one (1) year term, with appropriate adjustments throughout the year as necessary to reflect changes in risk.

The attached spreadsheet outlines the proposed coverages as follows:

- Excess Liability at \$10 million limit with self insured retention (SIR) of \$1 million;
- Commercial property at \$300 million blanket limit with SIR of \$150,000 and
- Excess workers compensation at \$25 million limit with SIR of \$1 million (we continue to evaluate other options)

SDBE Summary

This item was not reviewed by the Department of Equal Opportunity/Equity Assurance for compliance with the Ordinance to Promote Equal Business Opportunities in City contracting.

Attachment

Insurance Plan Proposal 2013-2014